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BUDGET
Highlights **2017**

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Dear Client,

BUDGET PROPOSALS - 2017

The Minister of Finance, Hon. Ravi Karunanayake, presented the 71st Budget (2017), the National Government's 2nd Budget today.

The medium term strategy of the Government is to generate 1 million employment opportunities, enhance income levels and develop the rural economy, creating a vibrant and wider middle class. It was stated that the Government has set a motion to achieve an annual growth of over 7%.

Some of the proposals appear to have political / social dimensions, offering benefits of price reduction of consumer goods, providing of computer tablets to school children and free health care insurance schemes.

Some of the commendable proposals are on science, technology and innovation for development, and the setting up of the Consumer Financial Protection Authority (CFPA).

This memorandum has been prepared as a general guide, exclusively for the information of our clients and staff. These proposals may be subject to alterations during the passage of legislation, through the Parliament. Therefore, conclusions and decisions should be made only after due consideration and consultation.

Some of the key proposals are:

- (a) Corporate income tax to be on a 3 tier structure of 14% , 28% and 40%.
- (b) Personal income tax rate will be from 4% to 24%, at a progressive rate structure with slabs of Rs. 600,000/- each.
- (c) Economic service charge – threshold to be reduced to Rs. 12.5 million per quarter.
- (d) The SVAT scheme will be abolished.
- (e) A financial transaction levy (FTL) of Rs. 5 per Rs. 10,000 introduced on the total transactions made by banks and other financial institutions.
- (f) Capital gains tax on immovable property will be effective from 1st April 2017.

The Tax and Business Advisory Services of SJMS Associates will be pleased to assist you in providing additional information and guidance on the proposed changes.

This information could be viewed on our website, www.sjmsassociates.lk.

Yours faithfully,

SJMS Associates

SJMS ASSOCIATES

Chartered Accountants

Budget Highlights 2017

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1. INCOME TAX

1.1 Corporate income tax

1.1.1 Corporate Income Tax Rate

The corporate income tax rates will be revised to a 3 tier structure comprising of a lower rate of 14%, a standard rate of 28% and a higher rate of 40%.

Rate	Proposed	Current
14%	The lower rate of 14% will be applicable for the profits and income of ; -SMEs (turnover of Rs.500 Mn or less) -Export of goods or services -Agriculture -Education.	-SMEs (stand-alone) – 12% -Export of goods or services – 12% -Agriculture – 12% -Education – 10%
	The tax rate of 14% is applicable for ; -Funds (EPF, ETF, etc.) -Charitable institutions -Dividends -Treasury bonds and treasury bills -Any other sector.	The current rate applicable is 10%.
28%	The standard rate of 28% will be applicable on the profits and income of all the other sectors including banking and finance, insurance, leasing and related activities,etc.	No change to the existing rate.
40%	The higher rate of 40% will be applicable for the profits and income of ; -Betting & gaming -Liquor -Tobacco.	No change to the existing rate.

1.1.2 Investment Incentives and Concessions

(a) For any trade or business:

1. 100% capital allowances will be granted upon,
 - a. Investment in fixed assets, not less than USD 3Mn and,
 - b. Generating not less than 250 employment opportunities.
2. 200% capital allowances will be granted if the investment is made in the Northern Province where,
 - a. The investment in fixed assets is not less than USD 3Mn and,
 - b. The generating of employment opportunities is not less than 250.
3. 100% capital allowances and for the second year of commercial operation, 5% of the investment (up to a maximum of the tax payable) as tax credit is given if,
 - a. The investment is not less than USD 5Mn and,
 - b. The generating of employment opportunities is not less than 300.
4. Specific concessions will be announced for:
 - Any investment not less than USD 100Mn generating employment opportunities for a minimum of 500 people; or
 - Any investment not less than USD 500Mn.

(b) For exporters:

If the profits from export in foreign currency for the YA 2016/2017 is more than 15% of the profits from export in foreign currency in the YA 2015/2016, then a tax rebate equal to 75% of the income tax attributable to the excess profit of 2016/2017 will be given.

(c) Concession for listing on the stock exchange

The tax concession given to encourage listings will remain.

25% of the income tax paid for the YA 2016/2017 will be allowed as a grant to those companies which are listed on the stock exchange in the YA 2017/2018.

1.1.3 Revision of capital allowances

Asset	Proposed	Current
Plant, machinery and equipment	20%	33 1/3%, 50% and 100%
Buildings	5%	10%
Other assets	No change	

1.1.4 Interest, dividend and WHT

1. The following exemptions will be removed:
 - Certain dividends and,
 - Interest or profits from investment in listed securities (corporate debt securities, etc.) and other instruments.
2. The present exemption on dividends received by unit holders of unit trusts and mutual funds will be removed for corporate unit holders.

The prevailing exemption will still be applicable to persons other than corporates.

3. WHT on specified fees which was abolished with effect from April 1, 2011 will be re-introduced. Accordingly, specified fees exceeding Rs. 50,000 per month or Rs. 500,000 per annum will attract WHT of 5%.
4. Notional tax credit will be removed and the income on instruments subject to upfront tax such as treasury bills, bonds and corporate debt securities will be taxable on the net interest.

At present, the gross interest received is computed for the purpose of income tax, by adding 1/9th of the interest received as the notional tax and credit is given against the income tax liability.

1.2 Personal Income Tax

1.2.1 Tax-free threshold on income from employment

The tax-free threshold on income from employment will be increased to Rs. 1,200,000 per annum (Rs.100,000 per month). Currently, the tax-free threshold on income from employment is Rs. 750,000 per annum (Rs. 62,500 per month).

	Tax-free allowance (Rs.)	Qualifying payment relief on income from employment (Rs.)
Current	500,000	250,000
Proposed	500,000	700,000

1.2.2 Employees employed under more than one employer

Employees who are employed under more than one employer will be taxed as follows:

- If the remuneration does not exceed Rs. 50,000 per month at 10%.
- If the remuneration exceeds Rs. 50,000 per month at 20%.

Currently, the rates are as follows:

- If the remuneration does not exceed Rs. 25,000 per month at 10%.
- If the remuneration exceeds Rs. 25,000 per month at 16%.

1.2.3 Tax rates for individuals

The tax structure on the taxable income will be revised as follows:

Tax Slabs (Rs.)	Tax Rate (%)
600,000	4
600,000	8
600,000	12
600,000	16
600,000	20
Balance	24

Currently, the rates are as follows:

For income from employment

Tax Slabs (Rs.)	Tax Rate (%)
500,000	4
500,000	8
500,000	12
Balance	16

Others

Tax Slabs (Rs.)	Tax Rate (%)
500,000	4
500,000	8
500,000	12
500,000	16
1,000,000	20
Balance	24

1.2.4 PAYE tax of employees of state-owned enterprises and other government institutions

The PAYE tax of employees of state owned enterprises and other government institutions should be deducted from the employees' emoluments and not be paid by the institution.

1.2.5 Removal of exemptions on profits and income from employment

The following exemptions will be removed:

- (i) Exemption on providing transport.

The current exemption is as follows:

One vehicle provided for travelling or an allowance provided in lieu of the vehicle up to Rs. 50,000 per month is exempt.

- (ii) Certain special allowances provided for special categories of public services.

Currently, the exemption is applicable for emergency services including on - call allowances for doctors and rental value of residence.

1.2.6 Exemptions on interest income

1.2.6.1 Interest income on savings accounts

The present exemption on interest on savings accounts where the interest paid for a month is less than Rs.5, 000 will be removed.

The current exemption is as follows, where the interest paid is less than Rs.5,000 per month:

- One savings account exempt.
- For more than one savings account, only one account.

1.2.6.2 Interest income earned by senior citizens

The present exemption on interest on deposits applicable to senior citizens will be restricted to Rs. 1,500,000 per annum.

Currently, the full amount of interest income earned is exempt.

1.2.7 Withholding Tax

1.2.7.1 Withholding tax on interest income

WHT on interest income will be increased to 5%.

Currently, the rate is 2.5%.

1.2.7.2 Withholding tax on specified fees

WHT on specified fees which was abolished with effect from April 1, 2011 will be re-introduced. Accordingly, specified fees exceeding Rs. 50,000 per month or Rs. 500,000 per annum will attract WHT of 5%.

1.3 Revision of Time Bar Provisions

1.3.1 Period to issue assessments

Presently, the time bar period comes into effect after 18 months from the 30th day of November of the immediately succeeding year of assessment, if the return has been filed on or before the due date. This period has been reduced to 09 months.

1.3.2 Appeals

- The period of 24 months within which a determination needs to be given by the CGIR upon the preferring of an appeal, has been reduced to 06 months.
- The period of 24 months within which a determination needs to be given by the Tax Appeals Commission will be reduced to 06 months.

1.3.3 Establishment of the National Tax Council

A National Tax Council will be established and the Office of Tax Ombudsman will be created by an Act of Parliament to resolve grievances of tax payers with the view to increasing tax payer confidence in the tax system and to avoid litigation.

Effective date of proposals

These proposals in relation to income tax are expected to come in to effect from April 1, 2017.

2. VALUE ADDED TAX (VAT)

- 2.1 The simplified VAT (SVAT) system will be terminated.
- 2.2 Post refund audits upon obtaining a bank guarantee will be implemented in order to minimize delays in the VAT refund process.
- 2.3 Smart e-invoice devices will be introduced to be used at the point of sale by VAT registered persons. This is expected to make the VAT collection process more simple and efficient. This system is to be extended to the Excise Department as well.

2.4 New Exemptions

- Plant, machinery and accessories for renewable energy generation identified under the following HS Code Nos:

8454.10	8501.31.10	8503.00.10	8503.00.20	8503.00.90
8504.10.10	8504.10.90	8504.21.10	8504.21.90	8504.22.10
8504.22.20	8504.22.30	8504.22.90	8504.23.90	8504.31.10
8504.31.90	8504.32.10	8504.32.90	8504.33.10	8504.33.90
8504.34.90	8504.40.10	8504.40.20	8504.40.30	8504.40.90
8504.50.10	8504.50.90	8504.90.10	8504.90.90	8513.10.10
8539.31.20	8541.40	9032.89.10	9405.10.10	9405.10.20
9405.20.10	9405.20.20	9405.40.30	9405.40.40	

- Plant and machinery imported by the Ceylon Electricity Board for generation, transmission and distribution of electricity.
- Import of transplanters, hand weeders, etc. for the use by farmers and farmer cooperatives.
- International telecommunication services provided to local operators by External Gateway Operators.
- Supply of geriatric care services and child care services.
- Locally manufactured dairy products.

- Certain electrical goods identified under the following HS Code Nos:
8516.40 8516.72 8527.21 8527.29 8527.91
8527.92 8528.72.41 8528.72.91 9101.11 9101.19
9101.19.10 9101.19.90 9101.21 9101.29 9101.91
9101.99 9102.11 9102.12 9102.19 9102.21
9102.29 9102.91 9102.99 9105.11 9105.19
9105.21 9105.29 9105.91 9105.99
- Magazines, journals or periodicals other than newspapers, identified under the following HS Code Nos:
4901.10 4901.91 4901.99 4901.99.10 4902.10.10
4902.90.10
- Medical machinery and medical equipment identified under HS Code No. 8421.29.10

2.5 Removal of Exemptions

- Gold coins, precious metals and precious stones identified under the following HS Code Nos:
7101 7102 7103 7104 7105 7106 7107 7108
7109 7110 7111 7113 7114 7116 7118.90.10
- Import or supply of jewellery.
- Locally manufactured milk powder.

- 2.6** A mechanism will be introduced at ports and airports to enable foreigners who stay less than 30 days in Sri Lanka to receive refunds of the VAT on goods purchased by such foreigners.

Effective date of proposals

The proposals in relation to VAT are expected to come in to effect from January 1, 2017. VAT on importation of certain items will take effect immediately.

3. NATION BUILDING TAX (NBT)

3.1 New Exemptions

- International telecommunication services provided to local operators by External Gateway Operators
- Printed books, magazines, journals or periodicals other than newspapers, identified under the following HS Code Nos:

4901.10 4901.91 4901.99 4901.99.10 4902.10.10
4902.90.10

- Solar panel modules and accessories under the following HS Code Nos:

8454.10 8501.31.10 8513.10.10 8539.31.20 8541.40
9032.89.10 9405.10.10 9405.10.20 9405.20.10 9405.20.20
9405.40.30 9405.40.40

3.2 Removal of Exemptions

- Any goods required for the purpose of providing services of international transportation, being goods consigned to Sri Lankan Air Lines Ltd, Mihin Lanka (Pvt) Ltd or Air Lanka Catering Services Ltd.
- Any article imported or sold by any society registered under the Co-operative Societies Act No. 5 of 1972 or under the respective statutes enacted by the Provincial Councils providing for such registration or Lak Sathosa Limited registered under the Companies Act No. 7 of 2007.
- Services provided by any society registered under the Co-operative Societies Law No. 5 of 1972 or under any Statute enacted by a Provincial Council or Lak Sathosa Limited registered under the Companies Act No. 7 of 2007.
- The services of a travel agent in respect of inbound tours, if such person is registered with the Ceylon Tourist Board.
- Services being construction services including the services of sub-contractors.
- Sale of residential apartments.

Effective date of proposals

The proposals in relation to NBT are expected to come in to effect from January 1, 2017. NBT on importation of certain items will take effect immediately.

4. ECONOMIC SERVICE CHARGE (ESC)

- 4.1** The ESC threshold will be reduced to Rs. 12.5Mn per quarter from the present threshold of Rs.50Mn per quarter.
- 4.2** ESC will be charged at the point of customs on the importation of motor vehicles as a form of advance WHT.

Effective date of proposals

The changes to ESC will take effect commencing from April 1, 2017.

Further, changes proposed in the Budget 2016 (subject to subsequent modifications) will be implemented together with the proposals listed above.

5. MISCELLANEOUS

5.1 Capital Gains Tax

A capital gains tax (CGT) will be imposed at the rate of 10% on the gain realized from disposal of immovable properties. It appears that the length of ownership will have no effect on the rate.

Prior to its abolishment in 2002, CGT on the change of ownership of any movable or immovable property occurring in any manner whatsoever (sale, exchange, transfer, realization, etc.) was liable to tax at varied rates based on the period of ownership.

Period of ownership	Maximum rate
Less than 02 years	Taxed as normal income
2-5 years	25%
5-15 years	17.5%
15-20 years	12.5%
20-25 years	5%
25 years or more	Exempt

Further, certain expenses, such as lawyers' fees, brokers' fees or stamp duties involved were generally deductible, depending on the situation and circumstances in the computation of capital gains. Any capital loss could be set off against capital gains.

5.2 Telecommunication Levies

- I. Telecommunication levy on internet services will be increased from 10% to 25%.
- II. A SIM activation levy of Rs. 200 will be imposed for a SIM.
- III. Digitalization of the country
 - All mobile operators will be given a 6 month period to convert their infrastructure enabling to provide the 3G facility and a surcharge at Rs. 100Mn per district will be imposed for failing to provide such facility.
 - All metro areas are required to be converted to 4G by June 30, 2018.
- IV. The present annual spectrum charge will be increased by 25%.

5.3 Betting and Gaming Levy

The present annual levy of Rs. 200Mn on the business of gaming will be increased to Rs. 250Mn. The proposed changes in the 2016 Budget, will be implemented with the revision of the annual levy referred to above.

5.4 Customs Duty

- I. Duty on the importation of portable alcohol will be increased from Rs.500 to Rs. 800 per liter.
- II. Duty will be reduced by Rs. 35 per Kg on milk powder.
- III. The duty on industrial raw materials has been reduced with a view to facilitate the industries and trading.
- IV. Duty rates of 96 tariff lines have been adjusted according to Sri Lanka's bound rate commitments to the World Trade Organization.
- V. HS Code National Sub Divisions have been created considering the requests made by the business community and the directive given by the World Customs Organization (WCO).
- VI. Duty will be removed on the imports of the transplanters, hand weeders, etc. by farmers and farmer cooperatives.

5.5 Special Commodity Levy

The tax rate applicable for white sugar will be revised to Rs. 7 per Kg from the existing rate of Rs. 2 per Kg.

5.6 Ports and Airports Development Levy (PAL)

- I. It is proposed to grant a 75% waiver on the PAL when importing high tech automated machinery and equipment, with the approval of the Ministry of Industry and Commerce.
- II. PAL on printed books, magazines, journals and periodicals will be removed.
- III. PAL on pharmaceutical products under HS Code Nos. 3926.90.80 and 9602.00.10 will be reduced to 2.5%.
- IV. PAL will be removed on the imports of the transplanters, hand weeders, etc. by farmers and farmer cooperatives.

5.7 Excise Duty under the Excise Ordinance

- I. The present wastage and evaporation allowances on liquor production will be revised as follows:
 - Wastage - 0.10%.
 - Evaporation - 0.05%.
- II. An annual license fee of Rs. 5Mn will be imposed on importers of Beedi leaves.
- III. Excise duty will be introduced on imported non-portable alcohol at Rs. 25 per litre.
- IV. Excise duty will be imposed on raw materials used for manufacturing of ethanol as follows :

Type of raw material	Proposed duty (Rs.)
Molasses	20 per Ltr
Coconut toddy	10 per Ltr
Maize	20 per Kg
Rice	20 per Kg
Any other	20 per Kg

5.8 Excise (Special Provisions) Duty

- I. Excise (Special Provisions) Duty will be imposed:
 - a) On beer cans :
 - Not more than 350ml at the rate of Rs. 10 per can ; and
 - More than 350ml at Rs.15 per can.
 - b) On any lottery ticket at Rs. 5 per ticket.
- II. (i) An excise duty waiver of 50% from the duty payable for importing a motor car with a CIF value less than USD 50,000 will be granted to a person who exports a minimum of 20 vehicles with a total value not less than USD 200,000.

(ii) Excise duty on motor vehicles will be revised.

5.9 Cess

- I. Cess will be increased on:
 - Export of rubber to Rs.15 per Kg.
 - Printing ink identified under HS Code Nos 3215 .11 and 3215.19 to Rs. 30 per Kg.
- II. Cess on 100 items will be removed.
- III. A sugar stabilization fund to be established by imposing 2% Cess on imported sugar and 5% on ethanol imports.
- IV. The Cess of 25% which is applicable on pre-fabricated structures related to the construction industry is to be removed.
- V. The animal feed industry is allowed to import maize, subject to the payment of Cess, when there is a shortage of domestically produced maize. This Cess will be reimbursed as an export rebate on the export of chicken.

5.10 Changes to Finance Acts

- I. The Finance Act No. 10 of 2015 will be amended to streamline the one-off taxes introduced.
- II. The luxury & semi-luxury motor vehicle tax [amendment to part II of the Finance Act No. 16 of 1995] will be revised.
- III. A financial transaction levy will be introduced at 0.05% on the basis of the total transaction value by banks or financial institutions.
- IV. An annual license fee and a fee on voluntary liquidation will be imposed on companies.

5.11 Vehicle entitlement levy is applicable from January 1, 2016 and such levy collected by the CGIR will be collected by the Director General of Customs at the point of Customs with effect from January 1, 2017.

5.12 Teledrama levy applicable on the foreign teledramas flowing in to the country and dubbed in Sinhala, Tamil or any other language will be increased.

5.13 Embarkation levy will be increased to USD 50 from USD 25.

5.14 Charges for court cases/ case filing fee:

A filing fee will be imposed when filing a court case by any person in any court.

5.15 Annual license fees on firearms:

An annual license fee of Rs. 20,000 will be imposed on firearms other than the firearms used for agricultural purposes. A penalty of Rs. 5Mn will be charged for using firearms without paying the license fee.

5.16 Import license fees

A fee will be charged for license to import lubricants, bitumen or gold.

5.17 Other fees and levies

I. Revision of fines charged on traffic offences

Traffic offences will be re-classified in order to be subject to spot fines and the minimum fine will be increased to Rs. 2,500.

II. A carbon tax will be imposed on vehicles other than electric cars and tractors. This fee will include the existing emission test fee.

III. A Gazette Notification is to be issued to determine the cost of freight as 15% of the Free On Board (FOB) value of imported goods, when an importer imports his own goods by his own vessel or an importer imports single goods by using a chartered vessel as a bulk cargo.

IV. To support the tea industry through a more simplified tax and tariff structure, it is proposed to abolish the import and export control fee of 1% on the CIF price of tea, and remove the fees on the packing of tea and the logo registration.

V. The annual renewal of licenses with the Sri Lanka Tea Board, which had six categories to be reduced to two, where large companies will be subjected to a fee of Rs. 500,000 per annum and smaller companies to a fee of Rs. 50,000 per annum.

Effective date of proposals

I. CGT on disposal of immovable properties will be introduced with effect from April 1, 2017.

II. Betting and Gaming Levy will be implemented effective from January 1, 2016.

III. Cess, Excise (Special Provisions) Duty, Excise Duty and PAL on importation of certain items will take effect immediately.

OUR COMMENTS

BUDGET OVERVIEW

The 2017 Budget aims at reducing the budget deficit amounting to 5.4% of the GDP in 2016 to 4.6% in 2017, by embedding the broader theme of accelerated growth with social inclusion.

This significant reduction in the budget deficit is proposed to be achieved by increasing the tax revenue mainly through increase in corporate taxation and withholding tax, and introduction of capital gains tax and removal of other selected tax exemptions.

With the aim of achieving sustainable economic growth, it is commendable to note that the recurrent expenditure and public investment in education, health and infrastructure have not been compromised.

In this context, we give below a few salient features of the budget proposals which capture the broader theme.

Corporate Income Tax

The corporate income tax rate is proposed to be revised to create a three tier structure of 14 percent, 28 percent and 40 percent. The income tax rate applicable on liquor, tobacco, betting and gaming, etc. will continue to be at the rate of 40 percent.

SMEs, exporters of goods and services, the agricultural sector and education sector will be subjected to the lower rate of 14 percent. Amidst a high tax regime, it is encouraging to note that a lower tax rate is proposed, which could help these sectors to be competitive in the local and international markets.

All others including banking, finance, manufacturing and trading will be subjected to income tax at 28 percent.

Income tax rate of 10 percent currently applicable on funds, dividends, treasury bills and bonds will be increased to 14 percent.

Overall, streamlining and simplifying the corporate tax structure could be considered as a very good measure. If the envisaged objective is to be achieved, the Government will have to ensure the establishment of a sound tax compliance and enforcement mechanism.

Personal Income Tax

The income tax rate structure of individuals, including PAYE is proposed to be revised with the maximum tax rate being 24 percent.

The tax-free threshold on income from employment will be increased to Rs.1,200,000 per annum from the present level of Rs.750,000 per annum. Earnings in excess of the tax free threshold will be taxed at the progressive rate structure which will be from 4 percent to 24 percent, having equal slabs of Rs.600,000 each.

Although this proposal would benefit the employees within the tax-free threshold, the individuals with high income slabs will be liable for additional taxes, since the exemption in relation to providing transport and certain other exemptions would now be removed.

Withholding Tax (WHT)

WHT on interest income will be increased to 5 percent from the present level of 2.5 percent and the exemption applicable on savings accounts with less than Rs.60,000 per annum will be removed. WHT will be re-introduced on specified fees where the payment exceeds Rs.50,000 per month.

Interest income of senior citizens up to Rs.1.5Mn per annum, which is Rs.125,000 per month will be exempted from income tax.

The senior citizens whose interest income was fully exempt previously would now be liable for WHT on incomes exceeding Rs.1.5Mn per annum. Although this proposal is a good move to tax the richer, the threshold of Rs.1.5Mn per annum could still be considered high.

Financial Transaction Levy (FTL)

A new levy known as FTL will be introduced as a contribution for social development at the rate of Rs. 5 per Rs.10,000 on the total cash transactions including easy cash by banks and other financial institutions. This levy is expected to create Rs. 8,000Mn in additional tax revenue and would result in an effective way of collecting taxes at source from the financial institutions.

Capital Gains Tax

The introduction of 10% capital gains tax on the gains realized from the disposal of immovable properties with effect from April 1, 2017 could result in substantial increase in government tax revenue, mainly in the private sector which has seen massive gains among the high echelons of the society.

While this could be considered as a good measure towards a progressive tax system, a flat rate of 10% on the investments held for a very long time could negatively impact the earning levels of the middle and lower class societies.

Investment Incentives

The budget proposals provide several incentives for job creation and investments in fixed assets in designated zones, clean energy and innovation. These incentives are expected to increase the investments in the country including foreign investments which could create employment and achieve sustainable growth.

In summary, the 2017 Budget has several proposed measures to increase the revenue, while providing several concessions to the public and industries for sustainable growth. A good tax collection system and proper administration could help in the creation of wealth for the society at large and equal distribution of wealth.

Appendix

Appendix A

SUMMARY OF CORPORATE TAX RATES Y/A 2012/ 2013 - 2017/ 2018

	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
	%	%	%	%	%	%
Income Tax						
Companies (excluding manufacturers and service providers)						
Taxable Income > Rs. 5 Mn	(1)	28	28	28	28	28
Taxable Income < Rs. 5 Mn	(1)	12	12	-	12	12
Any holding company, subsidiary or ass. company taxable income < Rs. 5 Mn	(1)	28	28	28	28	28
Companies being manufacturers and service providers other than holding/subsidiary or associate companies						
Small and Medium Industries (SMI) with turnover < Rs. 300 Mn Rs. 500 Mn from 01.04.2013 Rs. 750 Mn from 01.04.2015	(1)	12	12	12	10	10
Turnover > Rs. 750 Mn	(1)	28	28	28	28	28
Others						
Provident Funds	14	10	10	10	10	10
Clubs and Associations	14	10	10	10	10	10
Non-governmental Organizations	28	28	28	28	28	28
Manufacture & sale, or import and sale of tobacco and liquor products	40	40	40	40	40	40
Operations and maintenance of facilities for storage, local development of software or supply of labour	14	10.	10	10	10	10
Educational Services	14	10	10	10	10	10
Deemed Dividend Tax	15	15	15	15	15	15
Profit Remittances -	14	10	10	10	10	
(Non-resident Companies) (as a % of remittance)						
Foreign Dividends	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt

	2017/18 %	2016/17 %	2015/16 %	2014/15 %	2013/14 %	2012/13 %
Concessionary Rate						
Qualified Export Profits/ Construction/ Tourism	(1)	12	12	12	12	12
Agricultural undertakings	14	12	12	12	12	12
Agriculture Section 16	14	12	10	10	10	10
Venture Capital Companies	14	12	12	12	12	12
Unit Trusts	14	10	10	10	10	10
Unit Trust Management Companies	14	10	10	10	10	28
Petroleum Exploration	28	12	12	12	12	12
Exports with 65% Value Addition	14	10	10	10	10	10
Share Transaction Levy on Sale of Shares of Quoted Companies	0.3(2)	0.3(2)	0.3(2)	0.3(2)	0.3(2)	0.3 (2)
Economic Service Charge (ESC) 0.5(3)	0.5(3)	0.5(3)	0.25(3)(4)	0.25(3)(4)	0.25(3)(4)	0.25(3)(4)
Partnership	8(6)	8(6)	8 (6)	8 (6)	8 (6)	8 (5)

- Subject to legislation being passed by Parliament.
 - 1) Corporate Tax Rates
 - 14%
SMEs
Export of goods & services
Agriculture
Education
 - 40%
Liquor, tobacco & betting & gaming
 - Others 28% .
 - 2) To be paid by both buyer and seller.
 - 3) Of turnover.
 - 4) To be paid only by companies who are not paying income tax on trade profits due to profits being exempt or due to incurring losses.
 - 5) Divisible profit in excess of Rs. 600,000.
 - 6) Divisible profit in excess of Rs. 1,000,000.

	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
	%	%	%	%	%	%
Withholding tax						
Interest & royalty paid	10	10	10	10	10	10
Interest (on loans obtained prior to 01.04.2012) & royalty paid to a person outside Sri Lanka (subject to DTTA)	15	15 (1)	15	15	15	15
Rent, annuities and ground rent - Non-residents	14	15	20	20	20	20
Dividends (subject to DTTA)	14	10	10	10	10	10
Interest on listed debentures & debt securities and municipal bonds	10	-	-	-	-	10
Management fees	05	05	05	05	05	05
Reward payments by Govt. - Lottery prizes, winning from betting and gambling	10	10	10	10	10	10
Capital allowances						
Buildings	05	10	10	10	10	10
Plant, machinery & fixtures	20	33 1/3	33 1/3	33 1/3	33 1/3	33 1/3
Software	25	25	25	25	25	25
Software (locally developed)	100	100	100	100	100	100
Commercial vehicles and office furniture	20	20	20	20	20	20
Bridges and railways	6 2/3	6 2/3	6 2/3	6 2/3	6 2/3	6 2/3
Plant & machinery for businesses exporting more than 60% of total turnover	20	50	50	50	50	-
High tech plant, machinery and equipment for energy efficiency purposes	20	50 100 (2)	50 100(2)	50 100 (2)	50 100 (2)	50

Note:

- (1) From April 1, 2016 exemption is restricted to loans obtained from foreign banks & financial institutions only.
- (2) More than 30% of the total energy requirement is met through alternative energy resources.

	2017/18 %	2016/17 %	2015/16 %	2014/15 %	2013/14 %	2012/13 %
Deduction of losses (restricted)						
Life Insurance Business	Loss restricted to life insurance business profit	Loss restricted to life insurance business profit	Loss restricted to life insurance business profit	Loss restricted to life insurance business profit	Loss restricted to life insurance business profit	Loss restricted to life insurance business profit
Finance Leasing Business	Loss restricted to finance leasing profit	Loss restricted to finance leasing profit	Loss restricted to finance leasing profit	Loss restricted to finance leasing profit	Loss restricted to finance leasing profit	Loss restricted to finance leasing profit
Limited to	35% of total statutory income	35% of total statutory income	35% of total statutory income	35% of total statutory income	35% of total statutory income	35% of total statutory income
Value Added Tax						
Standard	15	(A)	11	12	12	12
Zero	0	0	0	0	0	0
Luxury	-	-	11	12	12	12
Nation Building Tax (NBT)						
Standard	2	(B)	2	2	2	2
Retail & Wholesale Business	2% of 50% of turnover	2% of 50% of turnover (B)	2% of 50 % of turnover	2% of 50 % of turnover	2% of 50% of turnover	2% of 50 % of turnover
Distributors	2% of 50% of turnover	2% of 25% of turnover (B)	2% of 25 % of turnover	2% of 25 % of turnover	2% of 25 % of turnover	2% of 25% of turnover

Note:

14.01.2016 / 01.05.2016	- 11%	} (A)
02.05.2016 / 11.07-2016	- 15%	
12.07.2016 / 31.10.2016	- 11%	
01.11.2016 till to-date	- 15%	
01.01.2016 / 13.01.2016	- 4%	} (B)
14.01.2016 / till to date	- 2%	

Appendix B

COMPARISON OF CURRENT CORPORATE TAX RATES, WITHHOLDING TAXES, INDIRECT TAXES ETC., Y/A 2017/2018

	Sri Lanka	India	Bangladesh	Singapore	Malaysia	Pakistan
	%	%	%	%	%	%
Corporate Tax						
Company	14 40 28	30 - 40	25 - 40	17	24	25 - 35
Clubs and Associations	14	-	-	17	Up to 28	0 - 32
Foreign Dividends	Exempt	15 or 30	-	Exempt	Exempt	25 - 35
Remittance Tax (Non-resident Company)	14	-	-	Nil	N/A	N/A
Capital Gains (Listed) Capital Gain on Immovable Properties	Exempt 10	0 to 40	15	Nil	5 - 30	0 to 15
Partnership Tax	8	-	-	0 to 22	N/A	0 to 35
Withholding Tax						
Interest	5 to 10	5 or 20	10 - 20	15	15	10 to 17.5
Royalty	10 or 15	10	10 - 20	10	10	15
Dividends	14	15 (Dividend distribution tax)	10 to 30	Nil	N/A	7.5 to 25
Rent	15	-	5 (Office)	15	10	-
Technical Services	15	10	-	17	10	15 or 20
Management Fee	5	-	-	17	10	8 to 15
Directors Fee	10 and 20	-	-	22 (20 for income due and payable to 1.1.2016)	N/A	20

	Sri Lanka	India	Bangladesh	Singapore	Malaysia	Pakistan
	%	%	%	%	%	%
Capital Allowance						
Buildings	5	10	10 (Office) 20 (Factory)	25 Initial 5 Annual	10 Initial 3 Annual (Industrial Buildings)	15 Initial 10 Annual
Plant & Machinery	20	15	20	33 1/3 Normal Additional 300 available under the Productivity and Innovation Credit (PIC) scheme	20 Initial 14 Annual	25 Initial 15 Annual
Furniture	20	10	10	33 1/3	20 Initial 10 Annual	15
Motor Vehicles	20	15	20	33 1/3	20 Initial 10 Annual	15
Computers	25	60	30	100 Normal Additional 300 available under the Productivity and Innovation Credit (PIC) scheme	20 Initial 80 Annual	25 Initial 30 Annual
Indirect Taxes						
Value Added Tax (VAT)	15	4 to 6 Intra-state 12.5 to 15 Neutral	15 - 6	7	6	13 - 17
Nation Building Tax (NBT)	2	-	-	-	-	-
Economic Service Charge (ESC)	0.5	-	-	-	-	-
Customs Duty	0-30	30	0-25	-	-	-
Excise Duty	0-22	12.5	-	-	-	-

Appendix C

COMPARISON OF EFFECTIVE TAX RATES FOR RESIDENT INDIVIDUALS

Y/A 2008/2009 – 2017/2018

An employee whose salary is Rs. 100,000 per month (1)

Rs. 150,000 per month (2)

Rs. 500,000 per month (3)

Y/A	Personal Allowance	Taxable Income			Income Tax			Average Effective Rate %		
		1	2	3	1	2	3	1	2	3
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000			
2008/2009	300	900	1,500	5,700	105	280	1,740	8.8	15.6	29.0
2009/2010	300	900	1,500	5,700	75	180	1,545	6.2	10.0	25.8
2010/2011	300	900	1,500	5,700	75	180	1,545	6.2	10.0	25.8
2011/2012	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2012/2013	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2013/2014	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2014/2015	600	600	1,200	5,400	28	84	976	2.3	4.6	16.2
2015/2016	750	450	1,050	5,250	18	66	720	1.5	3.6	12
2016/2017	750	450	1,050	5,250	18	66	720	1.5	3.6	12
2017/2018	1,200	-	600	4,800	-	24	792	-	1.3	13.2

Appendix D

Taxation of Retiring Benefits

Y/A	Rate		
	Nil	5%	10%
2011/2012 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2011/2012 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance
2012/2013 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2012/2013 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance
2013/2014 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2013/2014 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance
2014/2015 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2014/2015 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance
2015/2016 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2015/2016 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance
2016/2017 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2016/2017 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance
2017/2018 (A) (1)	First Rs. 5,000,000	Next Rs. 1,000,000	Balance
2017/2018 (A) (2)	First Rs. 2,000,000	Next Rs. 1,000,000	Balance

(A) Government sector - All retiring benefits are exempt from tax.

(1) If the period of Provident Fund contribution is over 20 years.

(2) If the period of Provident Fund contribution is below 20 years.

With effect from April 01, 2011, proceeds from the Provident Fund do not form a part of retiring benefits.

ABOUT SJMS ASSOCIATES

SJMS Associates is a multi-disciplinary professional services firm providing audit & assurance, business solutions, tax services, management consulting, financial advisory services and corporate risk services to a wide range of clients. SJMS Associates is an independent correspondent firm to Deloitte Touche Tohmatsu, a global leader in professional services with over 180,000 people in 150 countries / locations.

Our practice is one of the top accounting and auditing firms in Sri Lanka, with nine partners and 350 staff. Our clients operate in diverse industries such as advertising, apparel, retail, financial services, manufacturing to hospitality and leisure. The firm has over 38 years presence in Sri Lanka and has been associated with Deloitte Touche Tohmatsu since 1997.

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